TransAlta Utilities Corporation

ANNUAL REPORT 1985

Contents

Cover Photo

The montage on the front cover shows the most important aspects of TransAlta's operations, namely coal mining, generation, transmission of electricity and customer service, the latter represented by a lineman on a power pole. The graphic treatment of these photographs depicts the steady growth of the Company's assets over the past 10 years.

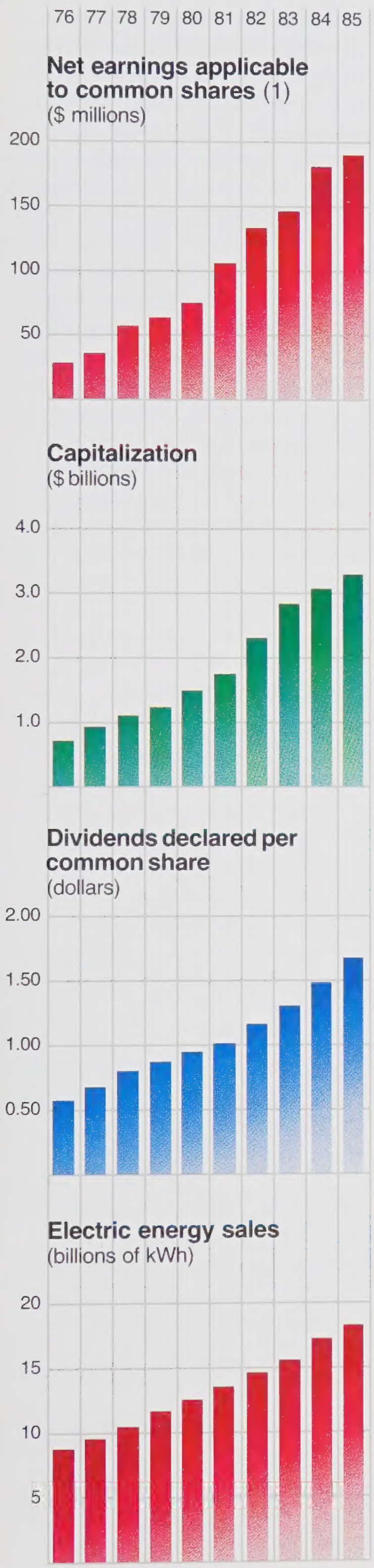
Shareholders' Meeting

Shareholders are invited to attend the Annual Meeting to be held at 10:00 a.m. on May 8, 1986 at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta. If you are unable to attend, please complete and return your proxy to assure representation at the meeting.

Financial Statistical Summary

A summary providing additional financial information on TransAlta Utilities over a 10-year period is available on request.

Financial Highlights



Earnings Statement (in millions)	**1985**	1984	Annual Growth 1976-1985 %
Gross revenue	**$836.0**	$787.3	18.0
Operating deductions	**524.5**	490.6	17.6
Allowance for funds used during construction	**75.6**	77.3	23.9
Earnings before financing charges	**404.0** (2)	397.0	20.4
Net earnings applicable to common shares	**180.9** (2)	183.7	20.5
Financial Position (in millions)			
Property account	**$3,215.0**	$3,081.5	15.3
Investments	**325.0**	244.9	48.3
Capitalization	**3,298.7**	3,071.2	16.6
Common shareholders' equity	**1,303.0**	1,218.8	19.0
Cash Flows (in millions)			
Cash from operations	**$151.1**	$119.2	10.6
Additions to property	**254.8**	306.5	8.3
Long-term financing	**109.1**	205.1	4.8
Other Statistics			
Earnings per common share			
Before investment write down provision	**$2.95**	$2.88	10.2
After investment write down provision	**$2.78**	$2.88	9.3
Dividends declared per common share	**$1.62**	$1.48	10.9
Book value per common share	**$19.93**	$18.83	9.1
Return on common shareholders' investment			
Before investment write down provision	**15.2%**	15.9%	0.8
After investment write down provision	**14.4%**	15.9%	(0.2)
Employee positions	**2,496**	2,477	3.1
Customers (thousands)	**591.3**	571.5	4.2
Electric energy sales (millions of kWh)	**18,248**	17,078	8.2
Generating capability (MW)	**4,110**	4,110	5.9

(1) Before investment write down provision of $11 million in 1985 and extraordinary items in 1982.

(2) After investment write down provision.

Report to Shareholders

In 1985 TransAlta Utilities Corporation continued the pursuit of its objective of providing safe, reliable electric service to customers at the lowest possible cost, while maintaining a fair return to shareholders.

During the year, energy sales increased, although the rate of growth was, and is expected to continue, at a slower pace than during the early 1980s. Peak demand for the winter of 1985-86 was 3,126 megawatts, compared to 3,000 megawatts for 1984-85. In 1985 TransAlta produced 81 percent of the electric energy consumed by utility customers in Alberta.

TransAlta's growth has been strongly influenced by the recent economic slowdown being experienced in the Province of Alberta. While there was an upward trend in the Alberta economy during the latter part of the year, the prospects for 1986 and beyond are more uncertain, due to the sharp decline in world oil prices. Growth in electric load is at a lower level than in the past, but the demand for electricity remains strong in most areas of our business. In particular, demand has increased at a rapid rate for irrigation pumping in southern Alberta.

Earnings and dividends

Earnings per share were $2.95 (before investment write down provision) and $2.78 (after investment write down provision) in 1985, compared to earnings per share of $2.88 in 1984. The investment write down provision of $11 million in 1985 relates to TransAlta Resources' investment in Keyword Office Technologies Ltd. Earnings applicable to common shares (before investment write down provision) provide a 1985 return of 15.2 percent on an average common shareholders' investment of $1,261 million. This compares to a return of 15.9 percent in 1984.

Effective January 1, 1986, the quarterly common share dividend was increased from $0.40 to $0.42 per share.

Two major capital projects completed

At the end of 1985 two major capital projects were being completed, marking the culmination of years of planning and construction: a 500 kilovolt (kV) interconnection with British Columbia Hydro and the first 400-megawatt generating unit at the Sheerness Generating Plant.

Commissioned in January 1986, the 500 kV transmission line extends southwest from Calgary through the Phillipps Pass in the Crowsnest Pass area of the Rocky Mountains. Capable of transferring power into or out of Alberta, the line provides access to systems many times larger than TransAlta's, and enhances the reliability and flexibility of the Alberta Interconnected System. Such access will greatly increase the security of supply in Alberta. Since most other systems in the northwestern United States and British Columbia have a primarily hydro-electric resource base, the interconnection permits TransAlta's coal-fired system to be more effectively utilized through economy interchanges and energy banking. It will also allow TransAlta to take advantage of economic export/import opportunities that may arise, to the benefit of Albertan consumers.

The first generating unit of the Sheerness Plant is now supplying electric energy. Sheerness will enhance the security and reliability of the Alberta Interconnected System because it is situated in a more southerly location and at a distance from the other major generating plants in the Province. Sheerness is jointly owned by TransAlta and Alberta Power Limited.

New units deferred

In January 1985 the Energy Resources Conservation Board (ERCB) held a hearing to determine commissioning dates for generating plants under construction. The two units for the Sheerness Plant, as well as the two units for the Genesee Plant owned by Edmonton Power, had previously been deferred.

The ERCB further deferred these new units — except for the first unit at Sheerness, which was approved to start up in January 1986. Since most of the construction costs for the first Sheerness unit had already been spent, the ERCB decided there would be no savings to customers if it were deferred further.

PUB determines revenue requirement

In the fall of 1985 the Public Utilities Board (PUB) held a hearing and determined

TransAlta's revenue requirements for 1985 and 1986. A major issue at the hearing was whether or not the costs for the first unit at Sheerness should be included in rates for 1986. Although the PUB approved the inclusion of the unit in 1986 rate base, it reduced the rate of return to shareholders related to the Sheerness investment in rate base to 11.15 percent. The PUB stated in its decision that the reduced return is due to the fact that not all of the capacity provided by the unit would be required to meet 1986 system reliability requirements. The PUB approved an effective rate of return for common equity capital deemed to be financing rate base of 14.50 percent for 1985 and a similar effective rate for 1986.

In 1985 TransAlta billed customers for all but $8.8 million of the 1985 revenue requirement. A revenue rider to recover this deficiency between February 1 and April 30, 1986 has been put in place and the amount has been recorded in 1985. Interim rates have been approved effective February 1, 1986, for the 1986 revenue requirement.

Active year for TransAlta Resources

The year 1985 was an active one for the major subsidiary, TransAlta Resources Corporation. Formed four years ago, TransAlta Resources holds the non-regulated activities and investments of TransAlta Utilities. TransAlta Resources increased its investment in Canada Northwest Energy Limited and expanded TransAlta Energy Systems. Although no major new investments were made during the year, TransAlta Resources continues to assess appropriate investment opportunities.

Calgary-based Canada Northwest Energy is a global explorer for hydrocarbons, with interests in oil and gas rights in 11 countries. TransAlta Resources is the largest shareholder in Canada Northwest Energy and currently holds approximately 35 percent of its common shares.

TransAlta Energy Systems, a division of TransAlta Resources, expanded in 1985, opening additional branch offices in Canada. TransAlta Energy Systems markets microprocessor-based building control systems which respond to the energy management needs of government, business and industry. The division has obtained major contracts in Alberta, Quebec and British Columbia.

Another investment, Keyword Office Technologies Ltd., a company actively developing new hardware and software for computer-based office systems, changed its marketing strategy from a direct sales distribution system to a more cost-effective dealer/agent system.

Facing the future with optimism

TransAlta Utilities faces the future with optimism. We believe that our success in the coming years will depend on our ability to adapt to the rapid changes in our society. Our employees are our most important strength in meeting the challenges ahead. We are providing the environment and training to equip employees to adapt to change quickly and positively. While the electric utility industry has always been on the forefront of new technology, the development of computerized systems will continue to play a major role in increasing productivity and providing more efficient and economical electric service to customers in the future.

A Risk Management Committee comprising four members of the Board of Directors has been set up to act as a liaison between management and the Board with respect to the insurance coverage being maintained by the Company.

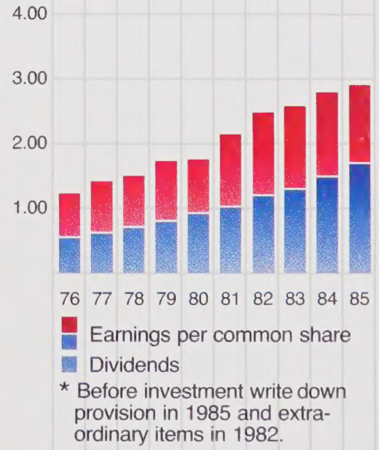
In order to provide continuity in senior management, a number of changes took place following the May 1985 Annual Meeting. Marshall M. Williams was appointed Chairman of the Board and Chief Executive Officer; Harry G. Schaefer was appointed Vice-Chairman of the Board and Chief Financial Officer; and Kenneth F. McCready was appointed President and Chief Operating Officer.

The foregoing, together with the following reports, are respectfully submitted on behalf of the Board of Directors.

M.M. Williams
Chairman of the Board
and Chief Executive Officer

February 11, 1986

Stable growth for shareholders *
(dollars per share)



* Before investment write down provision in 1985 and extraordinary items in 1982.

The management team: (l to r) K. F. McCready, President and Chief Operating Officer, M. M. Williams, Chairman of the Board and Chief Executive Officer, and H. G. Schaefer, Vice-Chairman of the Board and Chief Financial Officer.

Corporate Profile

TransAlta Utilities Corporation, incorporated under the laws of Canada and continued by Articles of Continuance under the Canada Business Corporations Act on May 3, 1979, is the largest investor-owned electric utility in Canada and operates in the Province of Alberta. TransAlta Utilities has been engaged in the production and sale of electric energy in the Province since 1911. In 1985 the Corporation produced either directly, indirectly or through wholesale supply contracts, 81 percent of Alberta's electric utility energy requirements.

75 years of customer service

When TransAlta began generating electricity some Alberta communities had no electric service and others were supplied with high-cost electricity from small isolated plants that operated only during specified hours. By the mid 1920s, an expansion program had begun to provide central station service 24 hours a day to these communities. Expansion has continued over the years and TransAlta now supplies approximately 600 cities, towns, villages and hamlets, as well as about 63,000 farms and other customers in the surrounding rural areas.

Generation is coal-based

TransAlta owns and operates three coal-fired generating plants and 13 hydro-electric plants. A fourth coal-fired plant, Sheerness, is jointly owned with Alberta Power Limited. Total nominal net generating capability including TransAlta's share of Sheerness is 4,293 megawatts. The operations of the plants are combined to achieve minimum overall cost of power: the large coal-fired units supply the base or continuous load, while the hydro-electric plants provide additional electric energy requirements, particularly during peak load periods.

Mining and reclamation go hand in hand

TransAlta has provided most of its own fuel requirements since 1962. It owns and operates two large coal mines which together produced about 13.8 million tonnes in 1985. Since the early 1960s the Corporation has been active in reclamation activities and to date has successfully reclaimed 905 hectares (2,235 acres) of land.

New centre automates system control

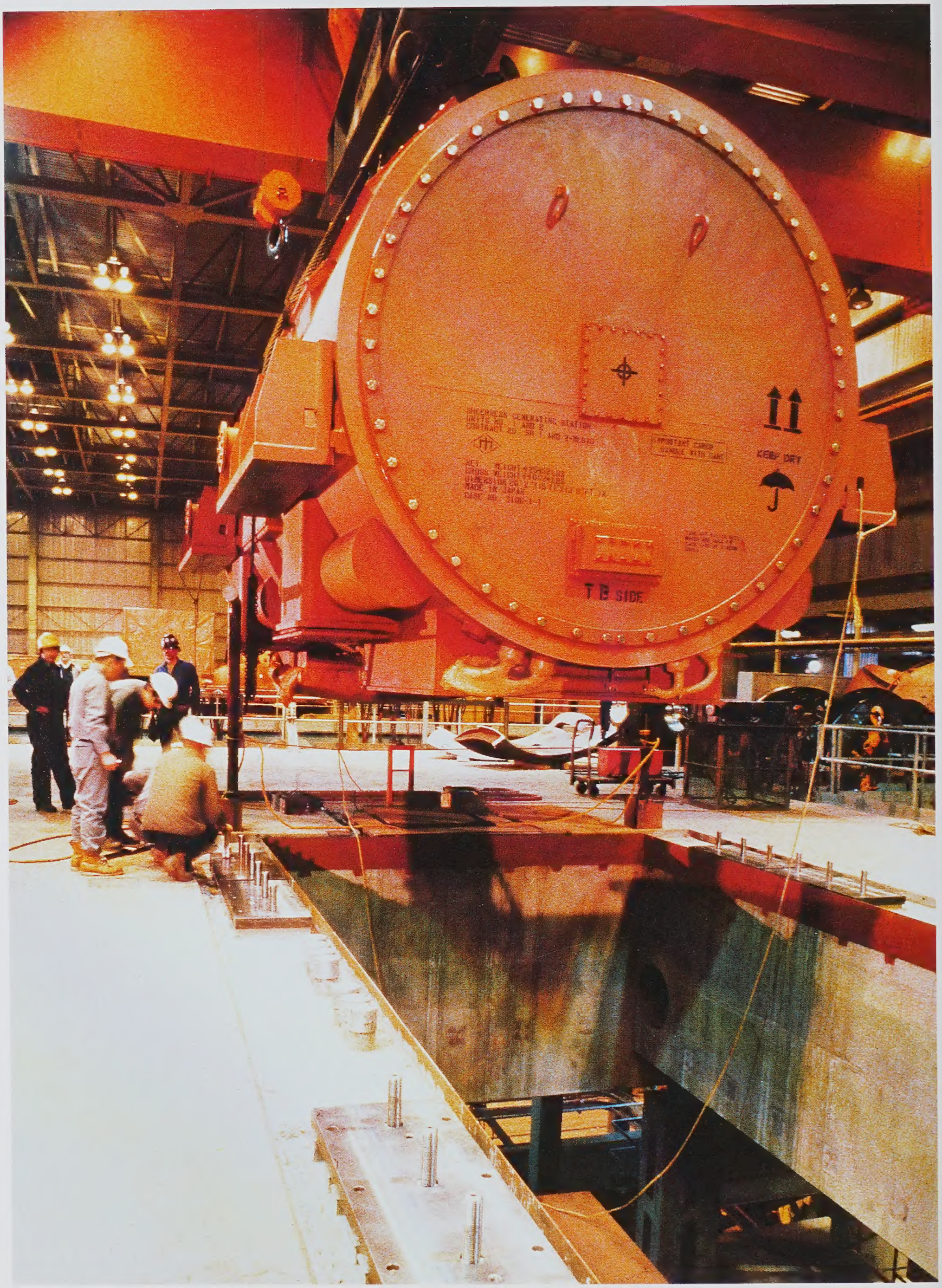
The new System Control Centre in Calgary directs the operation of the transmission system and remotely controls the majority of the switching points on the system. It also remotely operates the 13 hydro-electric plants and conducts generation dispatching for all units, including those at the coal-fired generating plants.

Transmission lines interconnect with B.C.

TransAlta owns over 68,000 kilometres of transmission and distribution lines. The transmission system is interconnected with all major power plants in Alberta and with the electric system in British Columbia. Through the B.C. interconnection, the Corporation is also indirectly connected with electric utilities in the northwestern and western United States.

Subsidiaries

In addition to TransAlta Resources, TransAlta Utilities holds investments in three other operating subsidiaries. Farm Electric Services Ltd. is a non-profit entity which organizes, constructs, operates and maintains, at cost, electric distribution systems owned by co-operative rural electrification associations. TransAlta Fly Ash Ltd. processes, for sale, fly ash, a by-product of the combustion of coal, gathered at TransAlta Utilities' coal-fired generating plants. Kanelk Transmission Company Limited owns facilities which pass through British Columbia in order to interconnect two portions of TransAlta's transmission system. Kanelk derives its revenue from the transmission of electric energy over such facilities for TransAlta and provides a wheeling service to some B.C. Hydro customers in British Columbia.



The first 400-megawatt coal-fired unit at the Sheerness Generating Plant began providing firm power to customers in January 1986.

Generation

Energy sales rise 6.9 percent

Peak demand for the winter of 1985-86 was 3,126 megawatts, compared to 3,000 megawatts for the previous winter. Electric energy sales to TransAlta's customers were 18,248 million kilowatt-hours in 1985, an increase of 6.9 percent. New industrial load accounted for most of the increase.

Demand from other utilities increases

Since TransAlta is the lowest-cost power producer in Alberta, an additional 4,446 million kilowatt-hours were sold to other electric utilities in the Province. As a result, TransAlta produced 24,566 million kilowatt-hours or 81 percent of the electric energy consumed by utility customers in the Province in 1985. TransAlta, together with Alberta Power and Edmonton Power, sold an additional 186 million kilowatt-hours out of the Province.

Construction expenditures reduced

Total construction expenditures for 1985 were $254.8 million, of which $109.9 million were spent on new generation facilities, environmental and mining equipment. Construction expenditures for 1986 are expected to be about $246.0 million.

New power plants deferred to meet customers' needs

In January 1985 the Energy Resources Conservation Board held a hearing to determine the appropriate commissioning dates for new generating plants approved for construction in the Province. TransAlta and Alberta Power Limited both recommended that the start-up of the second unit at the Sheerness Generating Plant and the two units at the Genesee Generating Plant be deferred and that the first unit at Sheerness start up, according to schedule, in January 1986. (TransAlta and Alberta Power are the joint owners of the Sheerness Plant, while the Genesee Plant is owned by Edmonton Power.)

The commissioning dates of these plants had been deferred in December 1983, on the basis that they would not be needed to supply power in the Province according to their original timetable.

The Board again deferred the new units, except for the first unit at Sheerness, which was approved to start up, as recommended, in January 1986. The Board decided that since this unit was nearly completed, there would be no savings to customers if it were further deferred.

Sheerness Generating Plant starts up

The first 400-megawatt coal-fired unit at the Sheerness Generating Plant began providing firm power to customers in January 1986. The second unit is currently scheduled to start up in 1990. Sheerness is located near the town of Hanna, in the southeast portion of the Province. With most of the large power plants in the Province situated near Edmonton, Sheerness' southerly location enhances the electrical security and reliability of the southern portion of the Alberta Interconnected System.

Excellent performance for Keephills units

TransAlta's two 400-megawatt coal-fired generating units at Keephills, commissioned in 1983 and 1984, continue to show high performance and during 1985 were in service 94 percent of the time. They are the most efficient units in the Province, burning less coal per kilowatt-hour than any other coal-fired unit. Also, they have experienced less downtime for maintenance and repair than normally associated with new units.

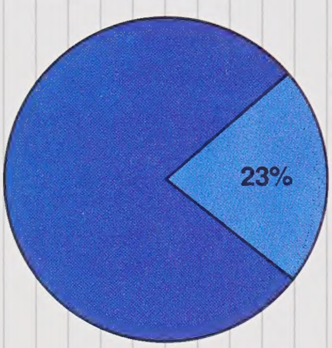
Slave River project deferred indefinitely

In August 1985, TransAlta, along with Alberta Power and the Alberta Government, announced that further work on the pre-investment phase of the Slave River Hydro Project would be deferred. The three sponsors had undertaken a three-year study in 1983, which would have formed the basis for an application to construct a large-scale hydro project on the Slave River in the northeast corner of the Province. Although the site is still technically feasible, current load growth does not warrant proceeding with further investigations at this time.

Hydro plant improvements underway

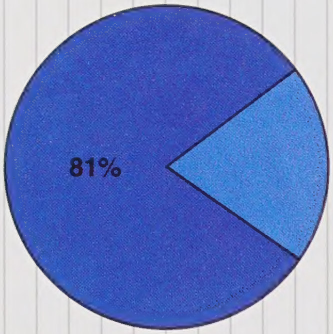
Construction work will be completed in 1986 on improvements at the Bearspaw hydro

TransAlta coal production as a percentage of total Canadian production



TransAlta's mines constitute the largest coal mining operation in Canada, in terms of production, comprising 23 percent of total Canadian coal production.

TransAlta's generation compared to total Alberta load



TransAlta is the largest producer of electric energy in Alberta, having produced 81 percent of the electric energy consumed in the Province in 1985.

TransAlta's low-sulphur coal fuels over 90 percent of the Company's electric energy generation.

plant west of Calgary. The improvements will enlarge the spillway capacity to ensure that the dam meets recently revised government guidelines. In addition, engineering studies are in progress relating to dam improvements at some of TransAlta's other hydro sites.

Coal production increases

TransAlta's coal mines produced a total of 13.8 million tonnes of coal during 1985. Of this amount, the Highvale Mine produced 11.8 million to fuel the Sundance and Keephills Generating Plants. At the Whitewood Mine, north of Wabamun Lake, 2.0 million tonnes of coal were produced to supply the Wabamun Generating Plant. Together the mines constitute the largest coal mining operation in Canada in terms of tonnes produced.

New contracts which encourage maximum productivity were awarded for the operation of the two mines over a five-year period starting January 1986. Contracts were awarded to Manalta Coal Ltd. for the Highvale Mine and to Fording Coal Limited for the Whitewood Mine. Previously, Manalta handled operations under contract at both mines.

Increased revenues from fly ash sales

TransAlta Fly Ash has been marketing fly ash, a by-product of the combustion of coal, for many years. Fly ash sales were up 30 percent in 1985 compared to 1984.

TransAlta is leading a five-year research project to test the use of fly ash in road construction. If the results of the research are positive, there will be more potential for increased fly ash sales.

Combustor to be tested at Wabamun

While TransAlta's coal has a low sulphur content, new government guidelines may require the addition of sulphur removal equipment for future generating plants.

TransAlta and four electric utilities in the United States are participating in research being conducted by Rockwell International of California. The research involves a new combustion technique to reduce sulphur emissions from coal at what is hoped will be a fraction of the cost of current sulphur removal technology.

Tests performed on a variety of coals have shown encouraging reduction in the level of sulphur oxides, nitrogen oxides and fly ash. The next phase of the research program involves installation of a prototype burner at TransAlta's Wabamun Generating Plant.

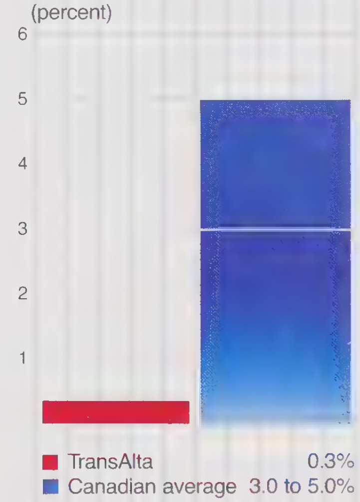
Coal gasification research is promising

The coal gasification combined cycle power plant, whereby coal is turned into gas to fuel combustion turbines, is another promising technology. In addition to increased efficiency and reduced environmental impact, this technology is expected to provide greater flexibility to match load growth due to its smaller-size generating unit and shorter lead time.

TransAlta has engaged a Canadian equipment supplier to study this process for application in Alberta. Phase one of the research program was completed in the fall of 1985. It involved testing Alberta coal samples and estimating the cost for a prototype and for a commercial plant.

The next phase involves the testing of a large quantity of Alberta coal at a U.S. test facility. Depending on the results of this study, further phases would involve the design and construction of a prototype and then later, a commercial plant. Commercialization of this technology could take place by the mid-1990s.

Low sulphur content in TransAlta's coal
(percent)



TransAlta's coal is extremely low in sulphur content, much less than the average sulphur content in Canadian coal.

A 500-kilovolt transmission line to British Columbia was completed late in 1985.

Transmission and Distribution to Customers

Construction expenditures reduced

Construction expenditures for transmission, distribution, substation and other equipment totalled $144.9 million in 1985, compared to $153.2 million in 1984.

B.C. interconnection starts operating

Late in 1985 TransAlta completed a 500-kilovolt transmission line from the new Langdon Substation southeast of Calgary to interconnect with British Columbia Hydro at Phillipps Pass in the Crowsnest Pass area of the Rocky Mountains. The line was first energized in November 1985 and went into full operation in early 1986, marking the first time a line of such high voltage has been operated in the Province.

The 210-kilometre line interconnects the electric systems of Alberta and British Columbia. Its primary benefits are added security of supply and better operating flexibility, resulting in cost savings to both Alberta and B.C. customers. In addition, it will allow TransAlta to take advantage of economic export/import opportunities, to the benefit of Albertan consumers.

New technology improves voltage control

Also commissioned in January 1986 was a 'static var compensator' at the Langdon Substation. This solid-state equipment improves the efficiency and increases the transfer capability of the north-south main grid transmission system by approximately 200 megawatts or 15 percent. It controls voltage fluctuation automatically, reducing electric light flickering, for example. The compensator will delay the need to build more north-south transmission lines to southern Alberta for a few years, thus helping keep costs to customers as low as possible. The $12 million compensator is one of the largest and most technologically advanced of its kind in the world.

System Control Centre operating

In 1985 hydro generation control was relocated from Seebe and consolidated in the System Control Centre in Calgary, thus completing phase one of the system control program. Phase two, currently being developed, will allow operators, through the use of computers, to predict the effects of unexpected or planned outages on the system. This type of operational analysis is needed to maintain quality of service standards in an interconnected system which is becoming more complex.

Irrigation customers increase load

Above-average load growth is being experienced in southern Alberta, as more and more farmers switch to electric motors for irrigation pumping. The number of irrigation customers more than doubled from 1980 to 1985. Electric motors provide benefits to these customers in terms of initial cost, convenience, maintenance and longer life.

Small Power Producers

The Small Power Producers Association of Alberta is a group of consumers interested in generating their own electricity — primarily through wind energy — and selling any surplus to the Alberta Interconnected System. The price for such energy was set in 1984 by the Energy Resources Conservation Board for a five-year test period.

New master rural agreement

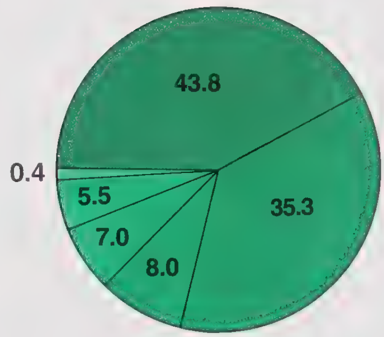
A new master agreement for Rural Electrification Associations (REAs) was developed in 1985. The agreement allows an REA to serve all farm customers in its area, to invest its own deposit reserves, and to hire its own contractors.

Flexible rates offered to industrial customers

TransAlta offers industrial customers the opportunity to reduce costs through a variety of rate modifications which provide a mutual benefit of reduced costs to both the customer and the utility. Over 30 industrial customers are now taking advantage of such rates, by purchasing off-peak or interruptible electric energy, for example.

Load research study underway

In the fall of 1985 TransAlta initiated a load research survey for residential and general service customers. Through



Energy usage by customer group
(percent)

● Industrial	43.8
● Wholesale	35.3
● Commercial	8.0
● Residential	7.0
● Farm	5.5
● Street lighting	0.4

Industrial customers, although relatively few in number, are the largest users of TransAlta's electric energy production.

this study, we will learn more precisely how residential electrical energy usage varies over the course of the day, week and year, as appliances are turned on or off. The information will help us better determine the cost of serving different customer groups, which is one of the criteria utilized by the Public Utilities Board in developing rates for each customer category. TransAlta's planners will also use the results to ensure that customers' energy needs are met in the most efficient way.

People and Productivity

Enhancement of productivity through the optimum use of capital, resources, time and knowledge has never been more important in our society. For TransAlta, productivity means keeping the cost of electric power as low as possible. We are also making a special effort to ensure that we are driven by the present and future demands of the marketplace. Conservation, cogeneration, fuel cells and solar power, to name a few, all have the potential to change consumers' electric supply decisions.

TransAlta's employees are our most important strength in meeting our productivity goals. We are proud of our success in the past, due largely to their commitment, loyalty, intelligence and hard work.

Productivity gains continue

The introduction of office automation since 1981 has resulted in increased productivity for professional employees. While the electrical output of TransAlta has increased 45 percent since 1981, professional staff levels have grown only 12 percent.

The introduction in 1979 of automated mapping for rural distribution facilities has resulted in significant productivity gains. As an extension of the automated mapping program, TransAlta has undertaken a facilities management project. This project is expected to provide accurate and timely facilities management data that can be presented in graphical, digital or report format. Such information would be linked to other appropriate corporate data bases.

Computerized materials inventory control systems at the coal-fired plants have been installed, resulting in reduced operating costs. Computerized maintenance management systems are currently being evaluated.

Productivity improvement in right-of-way maintenance has occurred. Through statistical sampling we can now determine more accurately how much right-of-way maintenance needs to be done and when, resulting in improved effectiveness.

Another new technology we are exploring is hand-held meter reading. With special computerized equipment, meter readers will be able to put customer information directly into the computer, thus eliminating duplicate entry of data.

Information management, particularly information storage and updating, is an important priority. Employees need to have information available at their fingertips in order to make timely and effective decisions. To gather all the information in our organization and put it into a form that will be useful to the most people is a tremendous task that is being undertaken.

Special employee productivity programs

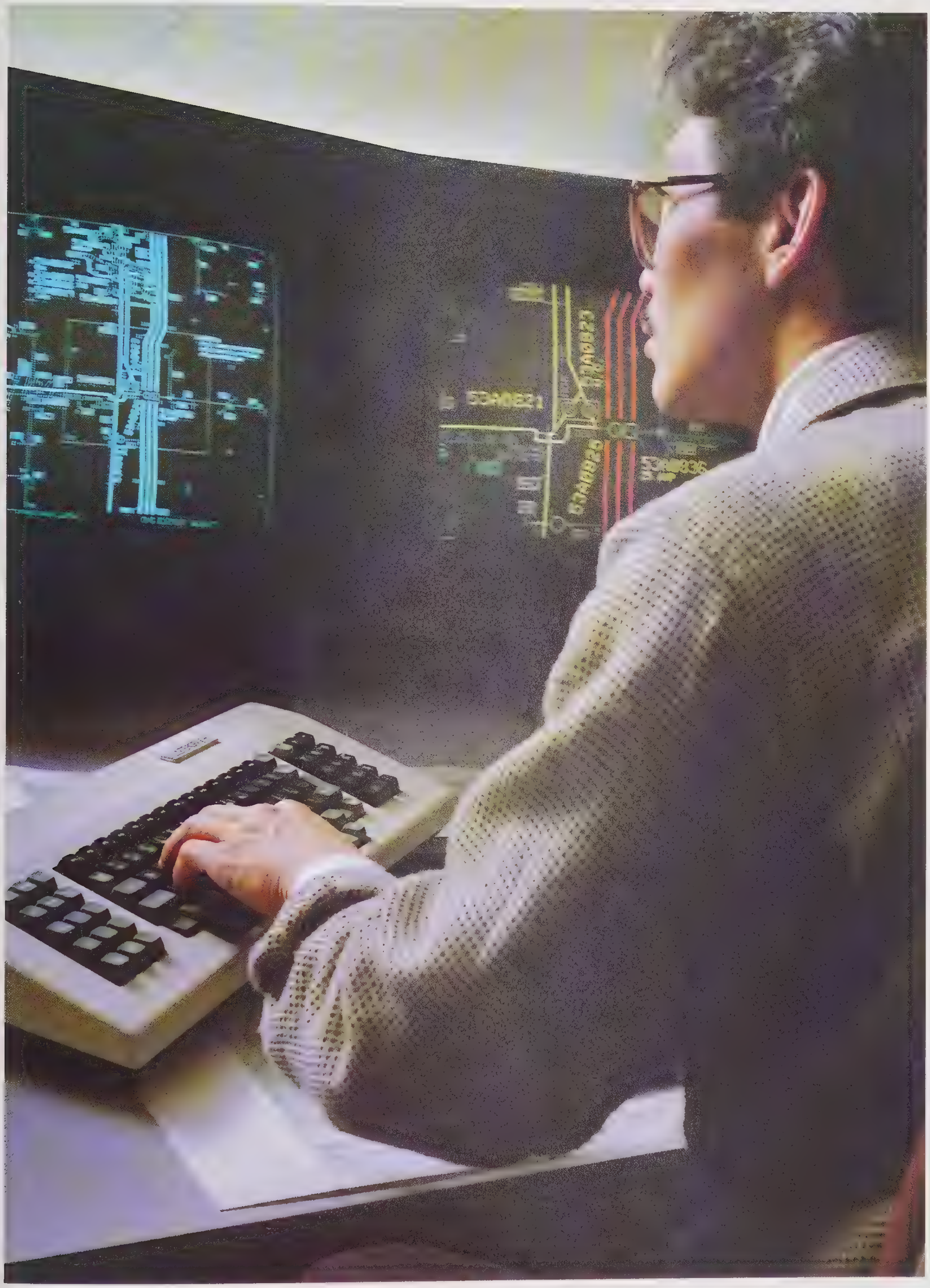
A Productivity Council, composed of a cross-section of employees from all areas of operations, meets regularly to discuss productivity-related ideas and concerns. The Council provides important feedback to management on employees' attitudes on productivity improvement efforts.

Implemented in 1982, the Action Recommended Program provides an opportunity for employees to submit suggestions to improve productivity. So far, over 1,000 action recommendations have been received. Several recommendations made by employees have saved hundreds of thousands of dollars.

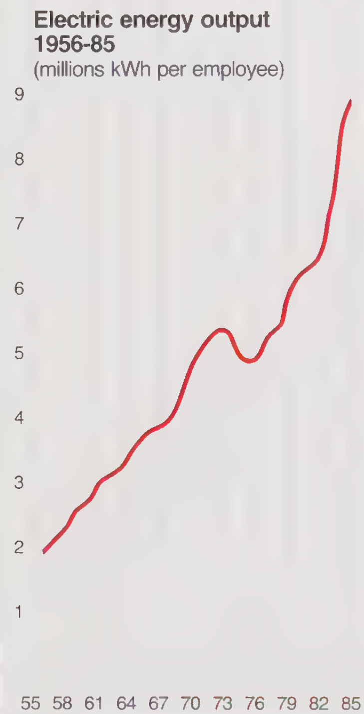
Such programs supplement the more routine integration of productivity information and values which employees are afforded in their daily jobs. In addition, productivity is regularly a subject of discussion at employee/management, staff and department meetings.

Employee involvement and training promoted

Relying on the strength of its employees, TransAlta places high priority on encouraging the team approach at all levels of the organization. In par-



Kelly Wong, senior draftsman, works on automated mapping in the distribution drafting area. The automated mapping facilities allow TransAlta to keep maps current and up-to-date.



ticular, a major project at the Sundance Generating Plant which encourages employee involvement and problem-solving has shown excellent results.

Self-paced learning programs and merit progression are now in place at the System Control Centre and the Keephills Generating Plant, under-scoring the belief that people should progress on performance. These programs will contribute to good customer service and lower cost.

Staff levels remain stable

By year end, the number of employee positions for TransAlta Utilities and Farm Electric Services Ltd. was 2,496 compared to 2,477 the previous year.

In 1985, 13 employees joined the Employees' 25 Year Club, which honours people with 25 years or more of continuous employment with the Company. There are currently 239 active employee members of the Club.

Two-year collective agreements with the two certified bargaining agents, TransAlta Employees' Association and the International Brotherhood of Electrical Workers (IBEW), expired December 31, 1985. In late February 1986, a one-year agreement, effective to December 31, 1986, was reached with the Association. Negotiations are proceeding with the IBEW.

Safety programs show positive results

Safety incentive programs at the generating plants have had extremely positive results. A safe driver award program started during the year will recognize employees for their safe driving habits.

We are saddened by the accidental death of power lineman B. J. Herlick during the year. The importance of safety and training must continue to be communicated to all employees and customers.

Financial Review

Reduced financing

During 1985 $122.7 million was raised externally to finance construction expenditures, compared to $236.7 million in 1984. This lower level of financing reflects a reduced construction program as well as an improved cash flow, with both units at the Keephills Plant in operation. The sale and lease back of the Marion 8750 dragline raised $54.6 million and $49.2 million was raised through the issue of two million 8.40% First Preferred Shares.

In January 1986 the proceeds of an offering of $100 million of 7.20% First Preferred Shares were used to redeem all of the outstanding shares of the 10%, 9.80%, 9¾% and 8¾% Series of First Preferred Shares and the $2.36 Series of Second Preferred Shares.

External financing in 1986 will again be moderate. However, significant refinancing will take place over the next five years. In addition to the January 1986 refunding, about 40 percent of debt and preferred shares, including many of the high coupon securities, will be subject to refinancing by 1990. It is important that TransAlta maintain its high credit rating together with sound financial ratios so that these securities are refinanced at the lowest possible rate.

Employee share purchase plan offered

A special share purchase plan has been offered to employees which is structured along the same lines as the Dividend Reinvestment Plan. So far, 395 employees are participating in the plan.

Rates

In the spring of 1985, an application for the determination of the 1985 and 1986 forecast revenue requirements was filed with the Public Utilities Board. The Board approved revenue requirements of $833.8 million for 1985 and $923.6 million for 1986. In 1985 TransAlta billed customers for all but $8.8 million of the 1985 revenue requirement. A revenue rider to recover this deficiency between February 1 and April 30, 1986 has been put in place and this amount has been recorded in 1985. Interim rates have been approved effective February 1, 1986, for the 1986 revenue requirement.

TransAlta, Alberta Power and Edmonton Power are subject to the provisions of the Electric Energy Marketing Act, which resulted in the establishment of the Alberta Electric Energy Marketing Agency in 1982. The Agency is intended to achieve provincial equalization of electric power generation and transmission costs

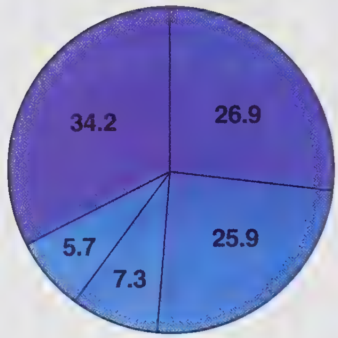
within three customer groups. See Note 4 to the financial statements, page 30, for further information.

Regulation

As an investor-owned utility, TransAlta's operations are subject to various provincial regulatory bodies.

The Public Utilities Board (PUB) approves rates for electric service and financing. Customer rates are based on the annual revenue required to cover all costs of operating. Part of those costs is a return sufficient to attract the capital needed for construction programs. In determining rates, the PUB uses a future test year and interim rates to cover projected costs of service. The PUB's decisions are final and may only be appealed to the courts on a matter of jurisdiction or law.

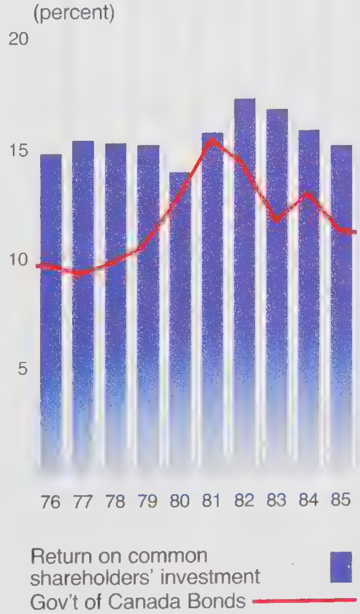
The Energy Resources Conservation Board approves construction of generating plants, transmission lines, coal mine developments, interconnections with small power producers and service area changes. Applications are filed and hearings are held before the ERCB months and often years before new facilities are required. Environmental and social impact assessments — and plans to minimize such impacts — are also presented. The ERCB's decisions on generating plants are subject to final approval through Order-in-Council by the Alberta Government.

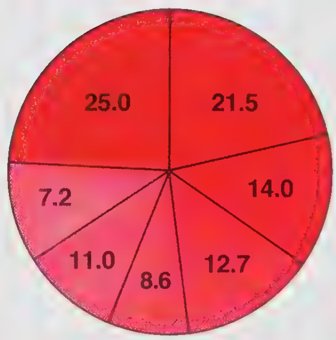


Origin of revenue
(percent)

• Industrial	34.2
• Cities and towns under wholesale contracts	26.9
• Residential, general service and small industry	25.9
• Farms	7.3
• Other	5.7

TransAlta's return to shareholders
(percent)

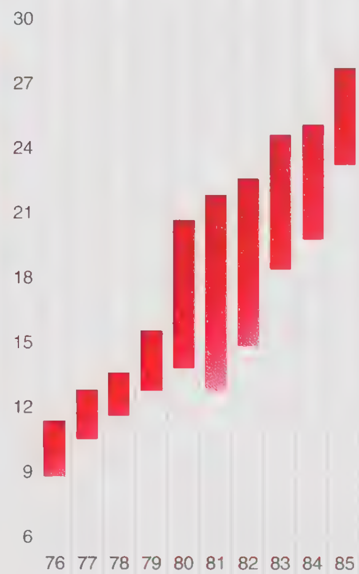




Use of revenue
(percent)

• Operating expenses	25.0
• Income Taxes	21.5
• Depreciation	14.0
• Interest charges	12.7
• Preferred share dividends	8.6
• Common share dividends	11.0
• Reinvested earnings	7.2

Common share market value range
(dollars per share)



TransAlta Resources

TransAlta Resources Corporation, the principal subsidiary of TransAlta Utilities, was formed to separate regulated utility operations from non-regulated investment activities and operations. It holds investments in Canadian Utilities Limited, AEC Power Ltd., Canada Northwest Energy Limited, Keyword Office Technologies Ltd. and operates TransAlta Energy Systems as a division.

The objective of TransAlta Resources is to identify and develop attractive business opportunities in keeping with the management and technical strengths of its parent. TransAlta Resources is well-positioned for expansion into such compatible fields as alternate energy and related emerging and innovative technologies in a non-regulated environment. The addition during the year of a Vice-President, Corporate Development, and a Controller will assist in meeting these objectives.

Canada Northwest Energy Limited

Canada Northwest Energy, an Alberta-based firm established in 1882, has interests in producing oil and gas wells in Canada, and abroad. In addition, it has an interest in the Vega Oil Field, offshore Sicily, currently under development. It is a global explorer for hydrocarbons with interests in oil and gas rights in 11 different countries. During the year, Canada Northwest Energy acquired Geocrude Energy Inc., an oil and gas company based in Calgary.

In 1985 TransAlta Resources purchased approximately 2.7 million additional common shares of Canada Northwest Energy, \$700,000 principal amount of 8% convertible debentures and 80,000 6½% convertible preferred shares. With these acquisitions, TransAlta Resources holds about 35 percent interest in the company.

TransAlta Energy Systems expands

TransAlta Energy Systems was established as a division of TransAlta Resources in 1983 to develop business opportunities relating to the energy management needs of business, industry and institutions. The division has been marketing microprocessor-based building control systems across Canada. Major contracts were awarded in Quebec, Alberta and British Columbia in 1985.

Keyword investment in high technology

TransAlta Resources owns 50 percent of the voting common shares of Keyword Office Technologies Ltd. Through this investment, TransAlta Resources is involved in the office services and automation industry, particularly the production and marketing of computer hardware and software to improve the compatibility of computer-based office systems.

For the past year, Keyword has been marketing the Keyword 7000, a disk-to-disk document conversion device, in North America and Europe with a direct sales force. This direct sales force approach has been uneconomic. Accordingly, TransAlta has provided for a reduction of the carrying value of its investment to a nominal amount resulting in a charge to earnings of \$11 million, which is net of deferred income taxes of \$3.4 million.

Sales are now being actively pursued through dealers and agents to provide a more cost-effective and lower-risk market channel. In addition, research and development activities are being accelerated to expand the application of the technology and to apply it on a contract basis to specific situations.

TransAlta Energy Systems' Gary Holden, manager of engineering, checks some flow diagrams of building control systems.

The main entrance to TransAlta's head office building in Calgary.

Corporate Information

TransAlta Utilities Directors

R. G. BLACK, Q.C.**
Partner, Black & Company
Calgary, Alberta

T. S. DOBSON* † **
Chairman
Easton United Securities Ltd.
Calgary, Alberta

D. D. DUNCAN, Q.C.
Partner, Duncan & Craig
Winterburn, Alberta

J. T. FERGUSON*
President and
Chief Executive Officer
Princeton Developments Ltd.
Edmonton, Alberta

D. J. GORDON**
Corporate Consultant
Willowdale, Ontario

A. W. HOWARD* **
Corporate Consultant
Calgary, Alberta

J. W. MADILL†
Chief Executive Officer
Alberta Wheat Pool
Calgary, Alberta

G. J. MAIER
President and
Chief Executive Officer
TransCanada PipeLines Limited
Calgary, Alberta

W. J. McCARTHY
Senior Vice-President
Sun Life Assurance Company
of Canada
Toronto, Ontario

H. J. S. PEARSON†
Chairman of the Board and
Chief Executive Officer
Century Sales and Service
Limited
Edmonton, Alberta

R. F. PHILLIPS, F.C.A.*
Corporate Consultant
Calgary, Alberta

H. G. SCHAEFER
Vice-Chairman of the Board
and Chief Financial Officer,
Calgary, Alberta

R. A. THRALL, JR.*
President
McIntyre Ranching Co. Ltd.
Lethbridge, Alberta

M. M. WILLIAMS
Chairman of the Board
and Chief Executive Officer
Calgary, Alberta

* Member of Audit Committee
† Member of Compensation Committee
** Member of Risk Management Committee

TransAlta Utilities Officers

M. M. WILLIAMS
Chairman of the Board
and Chief Executive Officer

H. G. SCHAEFER
Vice-Chairman of the Board
and Chief Financial Officer

K. F. McCREADY
President and Chief
Operating Officer

W. L. FRASER
Senior Vice-President,
Resource Planning

E. J. BARRY
Vice-President, Planning

R. E. BERGEN
Vice-President, Administration

M. J. HALPEN
Vice-President,
Human Resources

F. A. R. McKINNON
Vice-President, Finance

W. NIEBOER
Vice-President, Engineering

W. SAPONJA
Vice-President,
Power System Operations

K. G. TEARE
Vice-President,
Customer Service Operations

R. G. BLACK, Q.C.
General Counsel

R. L. McCRIMMON
Corporate Secretary

W. A. VERES
Treasurer

TransAlta Resources Directors

R. G. BLACK, Q.C.

A. W. HOWARD

W. J. McCARTHY

K. F. McCREADY

R. F. PHILLIPS, F.C.A.

H. G. SCHAEFER

M. M. WILLIAMS

Southern Alberta Advisory Board

MRS. P. C. BLAKELY
Chairman, Board of Education
Sylvan Lake, Alberta

T. A. BLAND
President
Terry Bland Photography
Lethbridge, Alberta

W. S. DALEY
Rancher
Granum, Alberta

W. DOWHANIUK
President/Director
Banff Park Lodge
Banff, Alberta

H. V. FOWLER
Owner, Harry Fowler Ltd.
Men's Wear
Brooks, Alberta

R. LEHR
President, Short Grass Ranches Limited
Medicine Hat, Alberta

G. W. MITCHELL
Rancher
Pincher Creek, Alberta

D. SCOTT
Farmer,
Penhold, Alberta

TransAlta Resources Officers

M. M. WILLIAMS
Chairman of the Board

H. G. SCHAEFER
President

F. A. R. McKINNON
Vice-President

A. C. MOON
Vice-President,
Corporate Development

R. L. McCRIMMON
Secretary

W. A. VERES
Treasurer

Northern Alberta Advisory Board

E. W. BERESFORD
Manager, Planning & Regulatory Affairs
Obed Mountain Coal
Company Ltd. (Union Oil)
Hinton, Alberta

A. C. COLEMAN
Mayor
Wainwright, Alberta

G. C. DOCKEN
Chairman
Strathcona Industrial Group
Edmonton, Alberta

T. M. McGEE
Owner, McGee's Men's Wear
Drayton Valley, Alberta

J. D. MORROW
Farmer
Deville, Alberta

D. W. SCHMIDT
Farmer
Ma-Me-O Beach, Alberta

M. J. SPARROW
Director, Sparrow Companies
Nisku Industrial Park, Alberta

Corporate Information

Head Office
110 - 12 Avenue South West
Calgary, Alberta

Postal Address
Box 1900
Calgary, Alberta
T2P 2M1

Auditors
Clarkson Gordon
Chartered Accountants
Calgary

Transfer Agents and Registrars

For First Preferred Shares:
CENTRAL TRUST COMPANY
Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Montreal,
Montreal Trust Company, Regina, as Agent of Central Trust Company

For Second Preferred and Common Shares:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal

Trustees and Registrars

For First Mortgage Bonds:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto, Montreal

For Debenture Issues:
THE ROYAL TRUST COMPANY
Vancouver, Calgary, Toronto, Montreal

For Dividend Reinvestment and Share Purchase Plan:
MONTREAL TRUST COMPANY
Calgary

Ticker Symbol: T. A. U.
Listed on the Alberta, Montreal and Toronto stock exchanges.

Valuation Day Value:
The V.D. Value as listed in Schedule VII of the Income Tax Act for common shares owned on December 31, 1971 (adjusted for the 3 for 1 stock split in 1980) is $9.08 per share.

TransAlta Utilities

Please return this coupon if you would like a copy of the 10-year Statistical Summary. Also, in order to improve our communication with annual report readers, we would appreciate your response to the following questions.

dingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
February 11, 1986

TransAlta Utilities Corporation

1985
Financial Statements

Corporate Information

Head Office
110 - 12 Avenue South West
Calgary, Alberta

Postal Address
Box 1900
Calgary, Alberta
T2P 2M1

Auditors
Clarkson Gordon
Chartered Accountants
Calgary

Transfer Agents and Registrars

For First Preferred Shares:
CENTRAL TRUST COMPANY
Vancouver, Calgary, Edmonton,
Winnipeg, Toronto, Montreal,
Montreal Trust Company,
Regina, as Agent of Central Trust
Company

For Second Preferred and Common Shares:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Edmonton,
Regina, Winnipeg, Toronto, Montreal

Trustees and Registrars

For First Mortgage Bonds:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto, Montreal

For Debenture Issues:
THE ROYAL TRUST COMPANY
Vancouver, Calgary, Toronto,
Montreal

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MONTREAL TRUST COMPANY
Calgary

Ticker Symbol: T. A. U.
Listed on the Alberta, Montreal
and Toronto stock exchanges.

Valuation Day Value:
The V.D. Value as listed in Schedule VII of the Income Tax Act for common shares owned on December 31, 1971 (adjusted for the 3 for 1 stock split in 1980) is $9.08 per share.

Auditors' Report

To the Shareholders of
TransAlta Utilities
Corporation:

We have examined the consolidated statement of financial position of TransAlta Utilities Corporation as at December 31, 1985 and the consolidated statements of earnings and reinvestment earnings and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
February 11, 1986

TransAlta
Utilities Corporation

1985
Financial Statements

TransAlta Utilities Corporation

Consolidated Statement of Earnings and Reinvested Earnings

In millions except earnings per share

Year ended December 31		1985	1984
Gross revenue from operations	Electric	**$833.0**	$786.7
	Other	**3.0**	0.6
		836.0	787.3
Operating deductions	Operating expenses	**164.7**	150.6
	Fuel and purchased power	**15.4**	19.3
	Taxes, other than taxes on income	**28.1**	23.7
	Net charge from the Alberta Electric Energy Marketing Agency	**21.5**	27.6
	Depreciation	**116.2**	103.7
	Taxes on income	**178.6**	165.7
		524.5	490.6
Operating income		**311.5**	296.7
Allowance for funds used during construction	Debt	**30.9**	31.6
	Preferred equity	**14.6**	14.9
	Common equity	**30.1**	30.8
		75.6	77.3
Investment income	Equity income	**27.9**	23.0
	Investment write down provision	**(11.0)**	—
		16.9	23.0
Earnings before financing charges		**404.0**	397.0
Interest charges	First mortgage bonds	**53.4**	42.0
	Other long term debt	**82.1**	90.8
	Other	**1.3**	3.4
		136.8	136.2
Preferred share dividend requirements	Parent	**74.3**	70.3
	Subsidiary	**12.0**	6.8
		86.3	77.1
Financing charges		**223.1**	213.3
Net earnings applicable to common shares		**180.9**	183.7
	Common share dividends	**109.4**	94.6
Reinvested earnings		**71.5**	89.1
	Opening balance	**510.0**	420.9
	Closing balance	**$581.5**	$510.0

		1985	1984
Earnings per share	Average common shares outstanding	**65.1**	63.9
	Before investment write down provision	**$2.95**	$2.88
	After investment write down provision	**$2.78**	$2.88

See accompanying summary of accounting policies and notes

Consolidated Statement of Financial Position

In millions

December 31		1985	1984
Assets			
Property account	Land, buildings, plant and equipment	**$3,966.2**	$3,727.5
	Less accumulated depreciation	**751.2**	646.0
		3,215.0	3,081.5
Investments		**325.0**	244.9
Current assets	Cash and term deposits	**—**	3.7
	Accounts receivable	**108.8**	105.6
	Materials and supplies at average cost	**37.0**	37.8
		145.8	147.1
Other assets		**49.8**	43.4
		$3,735.6	$3,516.9

Capital and Liabilities			
Capitalization	Common shares	**$ 750.3**	$ 744.6
	Contributed surplus	**13.8**	12.9
	Reserve for rate adjustments	**—**	0.7
	Reinvested earnings	**581.5**	510.0
	Reciprocal shareholdings	**(42.6)**	(49.4)
	Common shareholders' equity	**1,303.0**	1,218.8
	Preferred shares	**741.8**	707.8
	Long term debt	**1,093.9**	1,024.6
	Preferred shares of a subsidiary	**160.0**	120.0
		3,298.7	3,071.2
Current liabilities	Bank loan and short term notes	**63.0**	39.4
	Accounts payable and accrued liabilities	**116.1**	102.9
	Income and other taxes payable	**13.1**	23.8
	Dividends payable	**50.3**	47.5
	Current portion of long term debt	**34.8**	65.7
		277.3	279.3
Deferred credits	Deferred income taxes	**27.5**	41.9
	Customer and other contributions	**132.1**	124.5
		159.6	166.4
		$3,735.6	$3,516.9

On behalf of the Board:

M M Williams, Director   W Phillips, Director

See accompanying summary of accounting policies and notes

Consolidated Statement of Cash Flows

Tabular dollar amounts in millions

Year ended December 31		1985	1984
Cash from operations	Net earnings applicable to common shares (after deducting $12.0 million of dividends required by a subsidiary for minority interests — $6.8 million in 1984)	**$180.9**	$183.7
	Common share dividends	**(106.3)**	(93.5
	Operating items not using cash	**74.7**	53.1
	Change in non-cash working capital balances	**1.8**	(24.1
		151.1	119.2
Cash applied to investments	Additions to property	**254.8**	306.5
	Less allowance for equity funds used during construction	**44.7**	45.7
		210.1	260.8
	Canada Northwest Energy Limited	**74.0**	3.2
	Keyword Office Technologies Ltd.	**12.2**	3.6
	Sale of investment by the exercise of warrants	**(8.8)**	(13.2
		287.5	254.4
	Cash deficiency before financing	**$136.4**	$135.2

		1985	1984
Financing activities	Long term financing		
	Long term debt	**$139.6**	$121.0
	Preferred shares	**49.2**	100.0
	Common shares net of conversions and stock dividends	**—**	32.7
	Preferred shares of a subsidiary	**40.0**	50.0
	Repayment of long term debt	**(106.3)**	(91.3
	Purchase of preferred shares	**(10.2)**	(11.0
	Other	**(3.2)**	3.7
		109.1	205.1
	Short term financing		
	Increase (decrease) in bank loan and short term notes net of cash and term deposits	**27.3**	(69.9
		$136.4	$135.2

See accompanying summary of accounting policies and notes

Summary of Accounting Policies

Generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These principles conform in all material respects with International Accounting Standards.

The Corporation is engaged primarily in the production and sale of electric energy in the Province of Alberta and its activities are classified as one segment for financial reporting purposes.

Regulation

The Corporation is regulated by the Energy Resources Conservation Board pursuant to the Hydro and Electric Energy Act (Alberta) and the Public Utilities Board pursuant to Part II of the Public Utilities Board Act (Alberta). The Corporation is also subject to the Provincial Water Power Regulations (Alberta). These Acts and Regulations cover such matters as rates, construction, operations and accounting.

Consolidation and investments

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries of which TransAlta Resources Corporation, TransAlta Fly Ash Ltd., Kanelk Transmission Company Limited and Farm Electric Services Ltd. are active.

TransAlta Resources Corporation holds investments and has certain non-utility operations. TransAlta Fly Ash Ltd. processes and sells fly ash gathered at the Corporation's coal fired generating plants. Kanelk Transmission Company Limited owns facilities interconnecting the Corporation's transmission system between the Crowsnest Pass region and the Kananaskis River valley and in doing so passes through a portion of British Columbia. Farm Electric Services Ltd. is a non-profit entity which organizes, constructs, operates and maintains, at cost, electric distribution systems owned by rural electrification co-operative associations.

The Corporation's major investments are in AEC Power Ltd., Canada Northwest Energy Limited, Canadian Utilities Limited and Keyword Office Technologies Ltd. They are held by TransAlta Resources Corporation and are accounted for by the equity method except that Canadian Utilities Limited has been accounted for by the cost method from December 1985 when the carrying value of the investment reached its net realizable value.

Financing costs

Financing costs amounting to $41.7 million at December 31, 1985 ($41.5 million in 1984) are included in other assets and are amortized as follows:

Debt issues — over the lesser of the remaining original life or the estimated average life of the issue.
Equity issues — over the estimated average life of the issue.

Gains or losses realized on the purchase of Corporation debt for sinking fund purposes are amortized over the remaining life of the issue. These policies are in accordance with the method of determining the Corporation's cost of capital for regulatory purposes.

Translation of foreign currency

Long term debt payable in foreign currency is translated at the current exchange rate. The resulting adjustment is amortized over the remaining life of the debt which is in accordance with the method used in determining the Corporation's cost of capital for regulatory purposes.

Foreign exchange gains of fifteen thousand dollars were amortized in 1985 (losses of $0.1 million in 1984) and at December 31, 1985 unamortized foreign exchange losses of $13.1 million ($8.9 million in 1984) were deferred and included in other assets as part of financing costs.

Taxes on income

The Corporation follows the tax allocation method for recording taxes on income.

Under the Public Utilities Income Tax Transfer Act (Canada) and enabling legislation passed by the Province of Alberta, 95% of the federal and 100% of the provincial income taxes paid by the Corporation attributable to its electric utility operations are rebated to its customers.

For 1981 and 1982 the Corporation reduced its federal income tax provision and payments by one half by claiming deductions greater than the amounts charged in the accounts. This federal tax reduction of $58.8 million has not been recorded in the accounts since there is reasonable expectation that when such taxes are payable they will be recoverable in customer rates at that time. Prior to 1973 deferred income taxes were recorded and included in customer rates.

Customer contributions

Contributions from customers related to new service connections amounting to $128.5 million at December 31, 1985 ($120.8 million in 1984) are credited to deferred revenue and are amortized over the expected terms of the revenue deficiencies. The composite rate of amortization is approximately 3% per annum.

Notes to Consolidated Financial Statements

Tabular dollar amounts in millions

1. Property account

The land, buildings, plant and equipment are carried at cost. The Corporation provides for depreciation on a straight line basis using various rates as set by the Public Utilities Board based on depreciation studies prepared by the Corporation which result in an overall composite rate for 1985 of 3.78% (3.69% in 1984).

December 31	Depreciation rates	1985	1984
Hydro production	2.42%	**$ 192.5**	$ 187.8
Thermal production including coal mines	2.51% - 6.30%	**1,533.3**	1,523.6
Environmental control	2.72%	**290.7**	290.0
Transmission lines, substations and distribution systems	4.25% - 5.67%	**1,072.6**	993.9
Other	various	**222.9**	186.9
Property under construction		**654.2**	545.3
		3,966.2	3,727.5
Less accumulated depreciation		**751.2**	646.0
		$3,215.0	$3,081.5

The Corporation capitalizes an allowance for funds used during construction at its cost of capital related to construction. The rate is presently 12.74% (12.95% in 1984) as determined by the Public Utilities Board.

2. Investments

December 31	1985	1984
AEC Power Ltd.	**$ 10.4**	$ 10.4
Canada Northwest Energy Limited	**205.3**	124.2
Canadian Utilities Limited	**109.3**	106.5
Keyword Office Technologies Ltd.	**—**	3.8
	$325.0	$244.9

(i) AEC Power Ltd.

AEC Power Ltd. owns and operates the utilities plant which supplies electric energy and steam on a cost of service basis to the Syncrude Project for production of synthetic crude oil from the Alberta oil sands. The investment in AEC Power Ltd. consists of 50% of the voting common shares which represents one third of the outstanding shares.

(ii) Canada Northwest Energy Limited

Canada Northwest Energy Limited is a natural resource exploration and development company with Canadian and international interests. The investment represents an interest of approximately 35% consisting of 6,687,160 common shares, $18.2 million principal amount 8% convertible debentures and $8.0 million stated value 6½% convertible preferred shares. The unamortized excess of the purchase price over the book value of the underlying assets and liabilities amounted to $76.5 million and is being amortized by the unit-of-production method.

(iii) Canadian Utilities Limited

Canadian Utilities Limited, through operating subsidiaries, is mainly engaged in the generation, transmission, distribution and sale of electric energy, primarily in east-central and northern Alberta and in the production, purchase, transmission, distribution and sale of natural gas throughout Alberta. The investment represents an interest of approximately 19% which consists of 10% of the outstanding Class A non-voting shares and 29% of the outstanding Class B voting common shares. During 1985

2. Investments (continued)

Canadian Utilities Limited earnings of $17.9 million were included in equity income of which $13.3 million were received as dividends.

The Corporation indirectly owns approximately 3% of its own common shares since Canadian Utilities Limited owns approximately 17% of the common shares of the Corporation. Accordingly, the investment in Canadian Utilities Limited is reduced by $42.6 million which is the Corporation's pro rata interest in the cost of the Corporation's shares to Canadian Utilities Limited.

The Corporation and Canadian Utilities Limited have agreed to use their best business efforts to divest themselves of their reciprocal shareholdings. Warrants to purchase all the Canadian Utilities Limited shares held are outstanding. These warrants are exercisable on or before December 15, 1987. Canadian Utilities Limited also has warrants outstanding which carry the right to purchase on or before November 1, 1987 all of the common shares of the Corporation held by Canadian Utilities Limited.

(iv) Keyword Office Technologies Ltd.

Keyword Office Technologies Ltd., in which the Corporation owns 50% of the voting common shares, produces and markets computer related technology based on a comprehensive document translation architecture which allows the exchange of documents between incompatible word processing systems. During 1985 the Corporation made cash advances of $12.2 million ($2.2 million in 1984).

The company has been concentrating on marketing the technology with a direct sales force however the anticipated level of sales has not materialized. Primarily due to this uneconomic sales approach the Corporation has provided for a reduction of the carrying value of its investment to a nominal amount resulting in a charge to earnings of $11.0 million which is net of deferred income taxes of $3.4 million.

Sales are now being pursued through dealers and agents to provide a more cost effective and lower risk market channel. In addition, research and development activities are being accelerated to expand the application of the technology and to apply it on a contract basis to specific situations.

3. Capitalization

(i) Share capital

The authorized share capital consists of an unlimited number of Class A Common Shares, Class B Common Shares, First Preferred Shares and Second Preferred Shares, all without nominal or par value.

The Class A and Class B Common Shares are interconvertible on a share-for-share basis at any time and carry one vote per share. Certain Second Preferred Shares were convertible into Class A Common Shares on a share-for-share basis prior to October 1, 1985 at which time the conversion right expired.

Under the terms of a share option plan, the Corporation is authorized to grant certain key employees options to purchase up to an aggregate of 1,000,000 Class A Common Shares at prices based on the market price of the shares as determined on the date of the grant. On February 11, 1986 options to purchase 45,500 shares were granted.

The preferred shares, which are issuable in series, are cumulative and redeemable at designated dates at the option of the Corporation at their subscription price together with a premium not in excess of the annual dividend. Certain series are retractable at the option of the holder on designated dates at their subscription price plus any accrued and unpaid dividends. Certain series have annual purchase funds which are non-cumulative but require the Corporation to make all reasonable efforts to purchase for cancellation in the open market preferred shares at a price not exceeding their subscription price plus any accrued and unpaid dividends and costs of purchase. During 1985 the Corporation issued 2,000,000 first preferred shares for a cash consideration of $49.2 million.

3. Capitalization (continued)

(ii) Common shares

December 31	1985 shares	1984 shares	1985 amount	1984 amount
Issued and outstanding:				
Class A Common Shares	**66,936,610**	66,085,688	**$742.6**	$730.6
Class B Common Shares	**693,321**	1,264,536	**7.7**	14.0
	67,629,931	67,350,224	**$750.3**	$744.6
Issued during the year:				
On conversion of Second Preferred Shares	**217,402**	92,329	**$ 4.1**	$ 1.8
As stock dividends on Class B Common Shares	**62,305**	92,289	**1.6**	1.8
For cash under the Dividend Reinvestment and Share Purchase Plan	**—**	1,635,404	**—**	32.7
	279,707	1,820,022	**$ 5.7**	$ 36.3

(iii) Preferred shares

December 31	4% to 5.4%	7% to 10%	12% to 14¼%	1985	1984
Issued and outstanding:					
First Preferred Shares					
Purchase fund	$ —	$417.9	$250.0	**$667.9**	$623.7
Sinking fund	—	41.6	—	**41.6**	47.1
Other	4.2	—	—	**4.2**	4.7
Second Preferred Shares					
Purchase fund	—	28.1	—	**28.1**	32.3
	$4.2	$487.6	$250.0	**$741.8**	$707.8
Number of shares				***23,075,782***	*21,437,062*
Number of votes				***7,877,544***	*7,525,843*
Changes during the year:					
Issued for cash	$ —	$ 49.2		**$ 49.2**	$100.0
Cancelled through					
Purchase fund	—	(5.1)		**(5.1)**	(7.6)
Sinking fund	—	(5.5)		**(5.5)**	(4.2)
Other	(0.5)	—		**(0.5)**	(0.5)
Converted into common shares	—	(4.1)		**(4.1)**	(1.8)
	$(0.5)	$ 34.5		**$ 34.0**	$ 85.9
Number of shares				***1,638,720***	*3,741,580*
Number of votes				***351,701***	*847,570*
Retraction privileges:					
In 1986	$ —	$ —	$ 50.0	**$ 50.0**	
In 1987	—	—	125.0	**125.0**	
In 1988	—	—	75.0	**75.0**	
In 1991 to 1995	—	340.7	—	**340.7**	
No retraction	4.2	146.9	—	**151.1**	
	$ 4.2	$487.6	$250.0	**$741.8**	

3. Capitalization
(continued)

On January 6, 1986 the Corporation issued 7.20% purchase fund first preferred shares for a cash consideration of $100.0 million and the proceeds were applied to redeem all the sinking fund preferred shares, substantially all of the purchase fund second preferred shares and $28.0 million of stated value 8¾% purchase fund first preferred shares.

An annual purchase fund for up to $18.7 million, $16.9 million, $14.4 million, $12.9 million and $12.9 million of stated capital may be required in 1986 to 1990 respectively. Any such requirements could reduce the retraction privileges. The annual purchase fund requirement information and the retraction privileges provided reflect the January 6, 1986 refunding.

The excess of the subscription price of the preferred shares cancelled over their purchase cost amounted to $0.9 million in 1985 ($1.3 million in 1984) and is included in contributed surplus.

(iv) Long term debt

December 31	6% to 9.4%	10½% to 13¾%	14½% to 17⅝%	1985	1984
First mortgage bonds	$ 70.0	$100.0	$185.0	**$ 355.0**	$ 362.6
Foreign debt	65.2	—	—	**65.2**	70.2
Debentures	37.5	337.0	134.0	**508.5**	554.0
Notes payable	—	38.0	—	**38.0**	34.3
Capital leases	86.8	—	—	**86.8**	33.3
Subsidiary loan	—	39.7	—	**39.7**	1.9
Other	35.5	—	—	**35.5**	34.0
	295.0	514.7	319.0	**1,128.7**	1,090.3
Current portion	16.0	15.8	3.0	**34.8**	65.7
	$279.0	$498.9	$316.0	**$1,093.9**	$1,024.6

The following principal amounts and sinking fund requirements are due:

In 1987	$ 17.3	$ 24.6	$143.0	**$ 184.9**
In 1988	24.7	51.1	78.0	**153.8**
In 1989	18.0	21.3	53.0	**92.3**
In 1990	25.4	24.6	3.0	**53.0**
1991 to 1995	121.5	250.4	15.0	**386.9**
After 1995	72.1	126.9	24.0	**223.0**
	$279.0	$498.9	$316.0	**$1,093.9**

The first mortgage bonds are secured by a first charge on certain of the Corporation's land, buildings, plant and equipment and by a first floating charge on all other assets situated in the Province of Alberta. The Trust Deed provides for a sinking fund for the retirement of first mortgage bonds, payable on September 1 of each year of 1% of the principal amount of all first mortgage bonds outstanding.

All foreign debt of the Corporation is shown separately stated in equivalent Canadian dollars. This debt consists of first mortgage bonds payable in United States dollars ($2.5 million per year over the next 17 years) and in British pounds (£1.7 million in 1986 and £1.2 million in 1987).

The debentures are secured by a floating charge on the property and assets of the Corporation subject to the first specific charge and the first floating charge securing the first mortgage bonds.

3. Capitalization (continued)

The notes payable are unsecured, have no authorized limit, bear interest determined at June 30 and December 31 of each year at the greater of the five year bank term deposit rate or the prevailing bank prime interest rate and mature December 31 in each year. These amounts are payable to rural electrification co-operative associations through their agent Farm Electric Services Ltd. and represent a portion of funds contributed by members of these associations which have been invested with the approval of the Alberta Director of Co-operative Activities.

The Corporation leases, with options to purchase, draglines costing $92.2 million ($37.6 million in 1984). The cost of this equipment is included in the property account under thermal production and the related liability is included in long term debt to reflect the effective acquisition and financing of the equipment. Accumulated amortization amounted to $10.4 million at December 31, 1985 ($8.0 million in 1984). The future minimum payments under the capitalized leases are $10.3 million per year for the next five years and $102.3 million in later years. The imputed interest included in these future minimum rentals is $67.0 million at December 31, 1985 ($30.7 million in 1984).

The subsidiary loan is unsecured, bears interest at current lending rates and is covered by a credit facility which is convertible into term debt upon thirty days notice by either party. As term debt, repayment is required in five equal annual installments commencing one year after conversion.

(v) Preferred shares of a subsidiary

Two series of cumulative redeemable first preferred shares of TransAlta Resources Corporation are issued and outstanding. The first series consists of 4,400,000 shares ($110.0 million) of which 1,600,000 shares ($40.0 million) were issued in 1985. These shares carry a dividend rate of 8% per annum. After December 31, 1987 the dividend rate may be adjusted at six month intervals. The second series of 2,000,000 shares ($50.0 million) carries a quarterly floating dividend rate which is the greater of 8% per annum and a formula rate which is determined by applying ¼ of 70% of an average prime interest rate. The 8% minimum applies for the period up to and including the dividend payable on January 1, 1988. The dividend paid January 1, 1986 was 8% per annum. On February 1, 1988 or on any August 1 or February 1 thereafter, the shares of the first series are retractable and redeemable. The shares of the second series are retractable on February 1, 1988 and redeemable on or after that date. Shares of each series are retractable and redeemable at $25 per share plus any accrued and unpaid dividends.

4. Rates for service

The Public Utilities Board approved as final rates all rates which were in effect in 1984. The Board determined 1985 and 1986 revenue requirements with an overall cost of capital of 12.12% and 12.18% respectively, including an effective 14.5% return on common equity invested in rate base. In 1985 the Corporation billed customers for all but $8.8 million of the 1985 revenue requirement. A revenue rider to recover this deficiency between February 1 and April 30, 1986 has been approved by the Board and this amount has been recorded in 1985. Interim rates have been approved effective February 1, 1986 for the 1986 revenue requirement.

Pursuant to the Electric Energy Marketing Act (Alberta), the Alberta Electric Energy Marketing Agency purchases electric energy generated by the Corporation, Alberta Power Limited and Edmonton Power. The price is fixed by the Public Utilities Board. The Agency immediately resells the electric energy to the utility from which it was purchased at the average price of all electric energy purchased. The price fixed by the Board for electric energy for the Corporation is currently below the average price established by the Agency which gives rise to a net charge from the Agency to the Corporation. During the phase-in period of the Agency's operation

4. Rates for service (continued)

which started in 1982, the Province of Alberta has provided and is expected to continue to provide shielding for the Corporation's customers from net charges arising out of the averaging process.

With approval of the Public Utilities Board, rate hearing costs net of income taxes have been charged to the reserve for rate adjustments. During 1985 the reserve was eliminated after net rate hearing costs of $0.7 million ($0.5 million in 1984) were charged to it.

5. Income tax rate

Net earnings in 1985 were $255.2 million ($254.0 million in 1984) after deducting taxes on income. Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Alberta provincial income tax rates to pre-tax earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate:

Year ended December 31	1985	1984
Statutory income tax rates	**47.9%**	47.0%
Adjustments —		
(i) Investment income	**(1.9)**	(2.6)
(ii) Equity funds used during construction net of applicable depreciation adjustment	**(3.8)**	(4.1)
(iii) Coal mining allowances	**(1.9)**	(1.2)
(iv) Other	**0.9**	0.4
Effective income tax rate	**41.2%**	39.5%

6. Pension plan

The Corporation has a retirement pension fund covering substantially all employees. Based on the latest actuarial advice no unfunded liability exists.

7. Related party transactions

In the normal course of its business the Corporation enters into numerous transactions with Canadian Utilities Limited and its subsidiaries at prices and terms which are substantially subject to regulation by the Public Utilities Board. The amounts involved in these transactions are not material.

The Corporation entered into agreements with Alberta Power Limited (a subsidiary of Canadian Utilities Limited) for the construction, joint ownership and operation of Units 1 and 2 of the generating plant near Sheerness, Alberta. Unit 1 was commissioned on January 1, 1986 and Unit 2 is presently scheduled for commissioning in 1990. Each of these units have an estimated net generating capacity of 366,000 kilowatts. The Corporation's 50% share of the cost of these units is approximately $600.0 million of which approximately $376.0 million has been incurred to December 31, 1985.

8. Comparative figures

Certain comparative figures have been reclassified to conform with the statement presentation adopted in 1985.

Supplementary Information on the Effects of Changing Prices

Tabular dollar amounts in millions
(unaudited)

Introduction

The effects of changing prices are not disclosed in conventional historical cost financial statements. The Canadian Institute of Chartered Accountants has adopted recommendations for disclosure of supplementary information to report the effects of changing prices on an enterprise.

The presentation and usefulness of information on the effects of changing prices is in the experimental stage. Experimentation with the disclosure is desirable since to date no consensus has emerged on the concepts or on the interpretation of the results. Although inflation rates have lessened recently, significant accumulated inflation distortions related to the Corporation's large investment in operating utility property remain in the historical cost financial statements. The supplementary information is designed to remove this distortion.

In management's opinion this supplementary information reflects the principal effects of inflation on the Corporation. It provides useful insights into the real return on the common share investment and the real common share earnings. The values indicated by themselves, however, are not necessarily suitable for purposes of valuing the Corporation or its assets but do provide useful perspectives on the impact of inflation on recorded amounts.

Basic measurement concepts

The basic concept under current cost accounting is that earnings are measured after full provision is made by depreciation charges for the current cost of property that has been consumed in providing service. Conversely, historical cost earnings are an inadequate measure since historical cost depreciation does not reflect the value of property that has been consumed in providing service.

The restated earnings under current cost accounting show the earnings after providing for the property value consumed or current cost adjustment to depreciation. This adjustment is partially offset by the reduction in real value, under conditions of inflation, of the principal of debt and preferred share securities used in the financing of property. This offset (known as the financing adjustment) reduces the current cost depreciation charge so that only current cost depreciation related to the Corporation's property financed by common shareholders is deducted in arriving at net earnings applicable to common shares on a current cost basis. The financing adjustment is based on the historical proportions of debt and equity existing at year end. The resulting net earnings reflect a measurement of the real return on the common shareholders' invested capital.

Measurement techniques

The current cost of property is measured using specific indexes while coal reserves are valued at their net incremental cost of replacement. The resulting current cost adjustment to property determines the current cost adjustment to common shareholders' equity. Common shareholders' equity on a current cost basis is approximately the same for the Corporation whether it is measured with reference to the specific price level changes of the Corporation's property that was used or with reference to the general purchasing power changes of the common shareholders' investment.

Depreciation is calculated on a straight line basis on these current costs. The resulting property on a current cost basis is believed to be conservatively stated in relation to the value of the property estimated in terms of replacement cost less loss in value. The Corporation's experience indicates that the application of straight line depreciation rates to current costs tends to overstate the required current cost depreciation.

Regulation

The Corporation is subject to a regulatory process which periodically establishes a fair return on investors' capital. To the extent that the regulatory process treats the Corporation's shareholders fairly, the Corporation is able to attract the capital necessary to meet its service obligations to customers. The Corporation does not expect that the regulatory authorities will allow significant competitive impairment of the maintenance of its operating capability and considers that the disclosure of the current cost of its property is appropriate.

At or for the year ended December 31		1985	1984
Net earnings applicable to common shares	Earnings on historical cost basis	**$ 180.9**	$ 183.7
	Current cost depreciation adjustment	**(100.4)**	(89.2)
	Financing adjustment	**63.6**	53.4
	Earnings on current cost basis	**$ 144.1**	$ 147.9
Property account	Land, buildings, plant and equipment		
	Historical cost basis	**$3,966.2**	$3,727.5
	Current cost adjustment	**3,079.7**	2,961.7
		7,045.9	6,689.2
	Less accumulated depreciation		
	Historical cost basis	**751.2**	646.0
	Current cost adjustment	**962.7**	1,084.2
		1,713.9	1,730.2
	Property on current cost basis	**$5,332.0**	$4,959.0
Common shareholders' equity	Historical cost basis	**$1,303.0**	$1,218.8
	Current cost adjustment	**776.2**	753.1
	Common shareholders' equity on current cost basis	**2,079.2**	1,971.9
	Unrealized financing adjustment	**1,340.8**	1,124.4
	Common shareholders' equity on current cost basis including unrealized financing adjustment	**$3,420.0**	$3,096.3
Average return on common shareholders' equity	Historical cost basis	**14.4%**	15.9%
	Current cost basis	**7.3%**	7.8%
Earnings per share	Historical cost basis	**$ 2.78**	$ 2.88
	Current cost basis	**$ 2.21**	$ 2.32
Common shareholders' equity per share	Historical cost basis	**$19.93**	$18.83
	Current cost basis	**$31.81**	$30.47
	Current cost basis including unrealized financing adjustment	**$52.32**	$47.84

Current cost accounting notes

(i) The accounting policies followed in this supplementary information are unchanged from the consolidated historical cost financial statements except for the change in the basic earnings measurement concept.

(ii) The Corporation's investment activity has not been stated on a current cost basis due to the nature of the investments.

(iii) No adjustment is made to the income tax provision since current cost depreciation adjustments and financing adjustments are not recognized by the taxing authorities.

(iv) The comparative figures presented above are stated in 1984 purchasing power dollars. Comparative figures for 1981 to 1984 are presented in the 1985 Financial Statistical Summary in 1985 purchasing power dollars (constant dollars) and in the purchasing power dollars of the comparative year (nominal dollars).

Ten Year Summary

Financial Record (in millions of dollars except where otherwise noted)

		1985	1984
Statement of earnings	Electric revenue	**833.0**	786.7
	Other revenue	**3.0**	0.6
	Operating deductions	**(524.5)**	(490.6)
	Allowance for funds used during construction	**75.6**	77.3
	Investment income	**16.9**(1)	23.0
	Interest charges	**(136.8)**	(136.2)
	Preferred share dividend requirements	**(86.3)**	(77.1)
	Earnings applicable to common shares before extraordinary items	**180.9**	183.7
	Extraordinary items	—	—
	Net earnings applicable to common shares	**180.9**	183.7
Common shareholders' investment	Average common shareholders' investment (weighted)	**1,261.0**	1,155.0
	Return (before extraordinary items) on weighted average common shareholders' investment (%)	**15.2**(2)	15.9
Common share information (dollars per share)	Book value (year end)	**19.93**	18.83
	Earnings before extraordinary items	**2.95**(2)	2.88
	Dividends declared	**1.62**	1.48
Interest coverage (times earned before income tax)	First mortgage bonds	**10.91**	13.40
	All fixed charges	**4.26**	4.13
Assets and property	Total assets (year end)	**3,735.6**	3,516.9
	Property account	**3,215.0**	3,081.5
	Electric utility property in service (year end)	**2,560.5**	2,536.0
	Additions to property	**254.8**	306.5
Rate base	Electric utility rate base	**2,608.3**	2,434.0
	Allowed return on common equity invested in utility rate base (%)	**14.5**	15.0
	Recorded cost of capital (%)	**12.1**	12.3
Capitalization (year end)	Common shareholders' equity	**1,303.0**	1,218.8
	Preferred shares	**741.8**	707.8
	Long term debt	**1,093.9**	1,024.6
	Preferred shares of a subsidiary	**160.0**	120.0
		3,298.7	3,071.2

Statistical Record

		1985	1984
Electric energy sales (millions of kWh)	Residential, general service and small industry	**2,802**	2,671
	Industrial	**7,994**	7,205
	Cities and towns under wholesale contracts	**6,453**	6,240
	Farms	**999**	962
		18,248	17,078
Generating capability (nominal net MW)	Hydro	**800**	800
	Thermal	**3,310**	3,310
		4,110	4,110
Sources of primary energy (millions of kWh)	Hydro	**1,385**	1,420
	Thermal — Gas	—	—
	— Coal	**23,181**	21,256
	Net purchases and exchanges	**(4,610)**	(3,965)
		19,956	18,711
Customers (thousands)	Served directly	**283,254**	279,164
	Served indirectly through wholesale contracts	**308,086**	292,324

(1) Net of investment write down provision of $11 million.
(2) Before investment write down provision.

	1983	1982	1981	1980	1979	1978	1977	1976
	648.3	490.5	400.5	356.0	309.0	263.6	210.0	165.0
	2.3	2.0	2.2	3.4	2.9	2.4	1.7	1.3
	(416.9)	(302.1)	(238.8)	(227.0)	(199.5)	(169.5)	(134.5)	(107.5)
	97.4	85.2	35.4	20.9	17.5	17.1	15.9	15.2
	21.6	23.2	22.4	8.9	1.9	1.6	1.3	.8
	(137.4)	(110.5)	(78.4)	(60.9)	(44.1)	(41.2)	(37.4)	(32.2)
	(66.5)	(53.5)	(37.1)	(27.1)	(23.0)	(19.1)	(16.0)	(11.0)
	148.8	134.8	106.2	74.2	64.7	54.9	41.0	31.6
	—	(33.4)	—	—	—	—	—	—
	148.8	101.4	106.2	74.2	64.7	54.9	41.0	31.6
	885.0	780.0	677.0	534.0	426.0	359.0	267.0	211.0
	16.8	17.3	15.7	13.9	15.2	15.3	15.4	14.9
	17.27	15.50	14.93	13.40	11.88	10.91	9.77	8.96
	2.74	2.61	2.22	1.76	1.73	1.58	1.43	1.26
	1.38	1.20	1.04	0.94	0.83	0.77	0.68	0.63
	11.44	8.41	11.98	13.68	11.33	9.90	10.34	8.00
	3.46	3.18	3.35	3.77	4.38	4.11	3.52	2.99
	3,295.7	2,820.7	2,370.0	1,939.5	1,470.5	1,325.8	1,172.3	959.3
	2,883.1	2,483.0	1,935.7	1,590.1	1,372.6	1,209.9	1,065.5	901.4
	2,212.1	1,601.8	1,456.7	1,379.3	1,131.3	1,068.1	848.9	723.1
	491.9	692.0	406.6	270.7	209.1	185.3	198.6	207.5
	1,949.1	1,558.2	1,454.8	1,207.9	1,061.2	886.6	722.9	562.8
	15.0	17.0	15.5	14.5	14.5	14.5	14.5	15.0
	12.1	12.3	11.1	10.9	10.6	9.9	9.6	9.4
	1,088.3	804.4	787.5	606.0	450.5	403.5	311.8	252.2
	621.9	664.1	476.4	442.3	295.2	250.6	214.2	159.0
	1,028.1	909.3	582.7	489.7	484.8	474.9	458.3	386.6
	70.0	—	2.0	—	—	—	—	—
	2,808.3	2,377.8	1,848.6	1,538.0	1,230.5	1,129.0	984.3	797.8
	2,539	2,557	2,332	2,148	1,952	1,767	1,545	1,404
	5,963	5,197	4,901	4,539	4,165	3,637	3,313	3,067
	6,107	6,010	5,536	5,087	4,658	4,302	3,972	3,703
	904	906	803	774	762	699	641	608
	15,513	14,670	13,572	12,548	11,537	10,405	9,471	8,782
	800	800	800	800	800	800	800	800
	2,933	2,556	2,556	2,556	2,197	2,197	1,845	1,493
	3,733	3,356	3,356	3,356	2,997	2,997	2,645	2,293
	1,473	1,584	2,027	1,692	1,408	1,824	1,518	1,731
	6	19	3	—	17	5	9	239
	18,062	16,379	14,276	13,729	12,627	10,240	9,833	7,547
	(2,398)	(1,785)	(1,332)	(1,435)	(1,204)	(502)	(701)	294
	17,143	16,197	14,974	13,986	12,848	11,567	10,659	9,811
	275,226	267,001	264,497	253,333	241,615	227,947	212,709	198,558
	292,774	279,722	274,255	271,134	257,365	226,289	215,589	202,684

A Financial Statistical Summary providing additional financial information on the Corporation over a ten year period is available on request.

Management's Responsibility

In management's opinion the financial statements have been properly prepared within reasonable limits of materiality and within the framework of accounting policies summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 11, 1986. Management is responsible for all information in the Annual Report and financial operating data in the report are consistent, where applicable, with the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's authorization. These systems are monitored by internal auditors who perform extensive tests and related procedures.

The financial statements have been examined by Clarkson Gordon, independent Chartered Accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

In ensuring that management fills its responsibility for financial reporting and internal control, the Board of Directors is assisted by an Audit Committee, whose members are non-management Directors. The Audit Committee meets with management, the internal auditors and the external auditors to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements. The internal and external auditors have full and free access to the Audit Committee.

1. **This annual report could be improved by using**

illustrations	☐ more	☐ fewer
photographs	☐ more	☐ fewer
graphs	☐ more	☐ fewer
information	☐ more	☐ fewer on ______

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not sufficiently detailed	☐

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shareholder	☐
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4. **Additional comments:** ______

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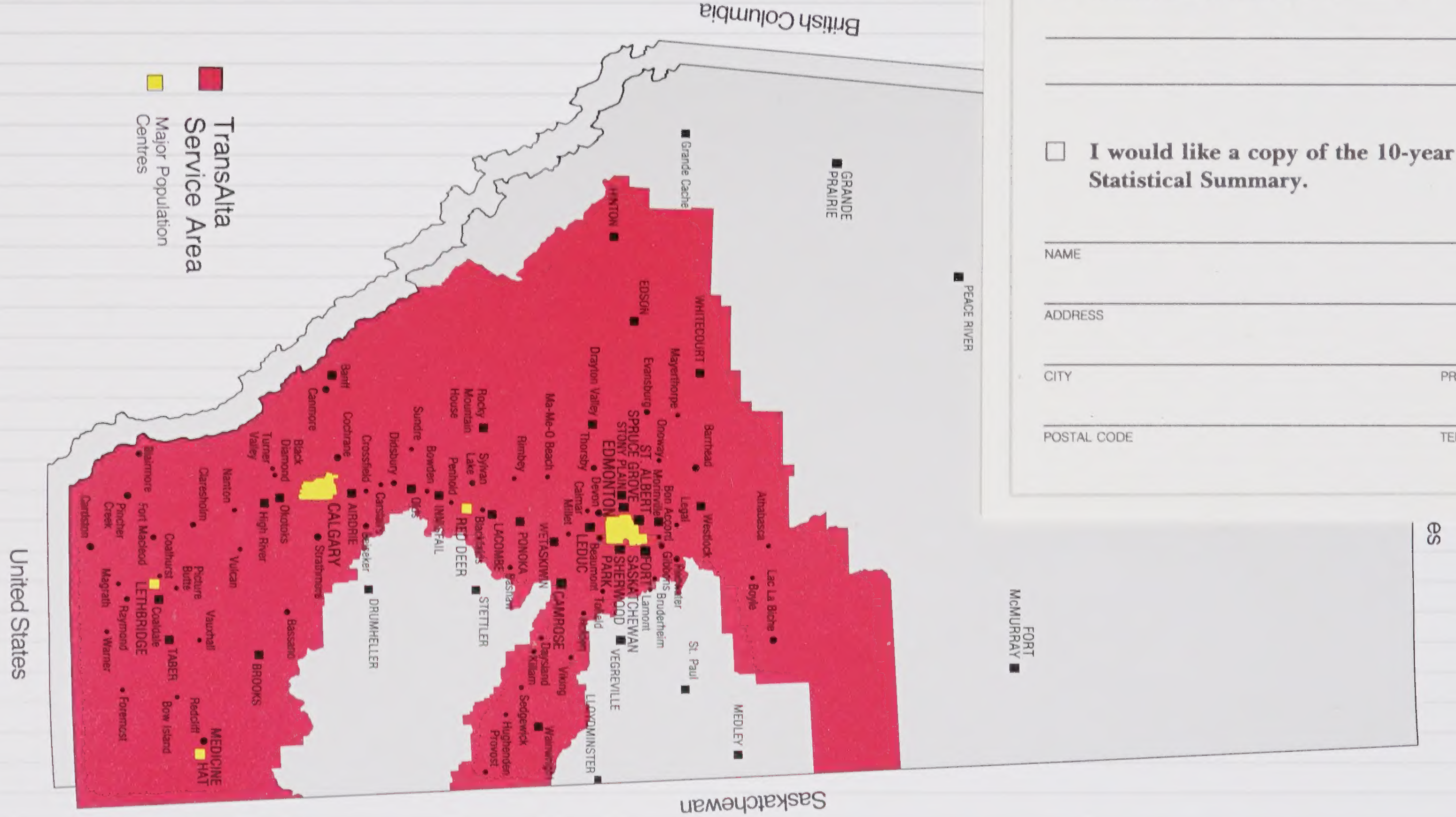

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made using careful judgment and with all information available up to February 11, 1986. Management is responsible for all information in the Annual Report and financial operating data in the report are consistent, where applicable, with the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's authorization. These systems are monitored by internal auditors who perform extensive tests and related procedures.

non-management Directors. The Audit Committee meets with management, the internal auditors and the external auditors to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements. The internal and external auditors have full and free access to the Audit Committee.

TransAlta Service Area

In 1985 TransAlta produced 81 percent of the electric energy requirements of the Province of Alberta.

TransAlta
Utilities Corporation